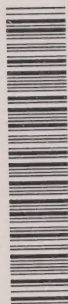


CAI #1
-75C23BS



Government
Publications

A BRIEF TO THE GOVERNMENT OF CANADA ROYAL COMMISSION ON CORPORATE CONCENTRATION



3 1761 11971319 6

On April 22, 1975, Prime Minister Trudeau announced that a royal commission was to be created to investigate the economic and social implications of major concentrations of corporate power in Canada. It was to make recommendations designed "to protect the public interest in the presence of such concentrations."

In November, 1975, Shell Canada Limited submitted a brief to the commission, headed by Robert Bryce. On Jan. 20, 1976, C. William Daniel, Shell Canada president, testified before a public hearing of the commission.

This is a partial text of the Shell Canada brief, with some statistical data brought up to date to cover calendar year 1975.



Contents

Highlights from the brief	1
The Nature of Corporate Business	2
The Nature and Performance of the Petroleum Industry	3
The History of Shell Canada Limited	5
Growth in Canada	6
Social Consideration	13
The Public Interest	14
Public Opinion	16
The Conglomerate Business Form	17
Appendix: Historical highlights of Shell Canada Limited	19

Further copies of this booklet are available on request from Shell Canada Limited, Public Affairs Department, 505 University Ave., Toronto, Ontario, M5G 1X4

Shell Canada Limited welcomes this public inquiry. It is our hope that out of this inquiry will grow an improved understanding by the public of the role and place of the corporation in the conferring of social and economic benefit to Canadian society.

The presence of large integrated oil companies in Canada has resulted in improved service, improved product quality and lower product unit costs for consumers. This is a consequence of the corporations' capacities to attract needed resources and produce with maximum efficiency.

In the 64-year history of Shell in Canada, growth in size and activity has resulted from the investment of risk capital, the re-investment of earnings and the application of careful and prudent management. Acquisitions have been an important but not primary source of growth.

Large size and the national distribution of operations makes it possible for an integrated petroleum company to attack major technological and production problems with a task force of highly-skilled specialists. The result is a capability of initiating new techniques or procedures.

Shell Canada's share of the market, in spite of its size, is not such as to allow it to influence price to the disadvantage of the consumer. On the other hand, size improves the prospect of gaining enormous amounts of capital required for petroleum resource development.

Shell Canada contributes in a direct way to employment and social well-being in Canada through income to employees, returns to shareholders and support of educational, cultural and socially-desirable undertakings.

The ability of a corporation such as Shell to serve the nation cannot be divorced from relevant policies applied by government. Corporations have no "power" other than their capability and determination and capacity to accomplish purposes that are in the national interest.

The greatest single contribution Shell Canada can make to the national interest is through the efficient and economical expansion of the domestic production of petroleum energy.

Adequately informing Canadians on the vital issue of energy development is a national challenge demanding the attention of the public, media, business community and governments.

The Nature of Corporate Business

The presence in Canada of petroleum corporations that are large, well financed, well managed and staffed, highly-specialized and skilled, technologically-oriented and vertically and horizontally integrated is of benefit to consumers. It results in improved service and improved quality of product and, as a consequence of efficiency and a high level of productivity, lower product unit costs.

The conglomerate form of business corporation differs from the large, limited product line, integrated corporation, in that the conglomerate tends to be a family of companies with more or less unrelated products and tends to be controlled by a management or holding company. The management company provides a relatively narrow range of services to the conglomerate family; this may include financial management, marketing assistance and, to a greater or lesser extent, general management. Expansion of a conglomerate business is ordinarily achieved by the takeover of an operating company that may or may not be related in product terms to the acquiring company. This is in contrast to the integrated company that is specialized in product terms and expands either within the industry in which it operates, or in logically related industries.

The aggregate capability in a major, integrated, petroleum corporation is constructed from the skills of a large number of persons with widely varied training, aspirations and commitments.

Through the exercise of effective and sophisticated management skills, these individual capabilities are so combined that they achieve maximum effectiveness. The result is a company such as Shell Canada Limited.

An operating corporation is a dynamic entity; it is a combination of people and money in movement. It is vulnerable to unexpected change as well as to misunderstanding and hostility in the social and economic environment in which it must function.

It does not have the power to unilaterally amend this environment. Power, even in a modern democracy such as Canada, is vested in the sovereign state. A private corporation does not have "power" in the sense in which it is used in the terms of reference of this royal commission. What Shell Canada has is capability. Shell knows a great deal about the exploration for and development of crude oil and natural gas resources, and the manufacture and marketing of petroleum and chemical products. These are activities in which misdirected effort is not enough and "luck" is well short of being enough: the requirement is well-developed skills, committed, determined and capable people and a willingness to invest large sums and bear enormous risks.

The operative word for an integrated petroleum corporation is not "power." The operative word is "capability."

The responsibility of the managers of a business—integrated or conglomerate—is to so combine production factors that goods of an appropriate quality are produced at a minimum cost.

The affairs of the enterprise must be so conducted that the business will survive and continue to provide required goods and services. Increased population and demand implies a need for new capital that can be invested in the enterprise to ensure it expands at least as quickly as the market grows. This involves the sale of equity or the incurring of debt and neither is possible without profit. The achievement of a realistic profit is a further responsibility of the prudent manager of a business enterprise.

Whether the market is served by a large number of small companies or a relatively limited number of large companies typically depends upon the nature of the resource used, the nature of the market, and the kind of product delivered to the market. The most economical structure is the one that best serves the consumer and so is most likely to survive. The petroleum industry, as an example, operates more economically if the component companies are large—the market for the products of the industry is widely dispersed and the source of the raw material is relatively concentrated in a few areas that are difficult to discover and costly to develop, the manufacturing process is technical and transportation to a nationwide market from widely separated sources is costly and complicated.

In terms of the supply of petroleum products, efficiency and economy appear to be best achieved by the large, integrated, specialized corporation. It would be difficult and, in all probability, it would be impossible for a large number of small energy companies to

achieve the same level of efficiency and economy and provide an equivalent level of service to the consuming public at an equivalent cost.

The Nature and Performance of The Petroleum Industry

The petroleum industry is an amalgam of highly-specialized functions, including exploration and the production of crude oil and natural gas, transportation, refining and manufacturing and the sale and distribution of the resulting products. The scientific requirements range from geotechnical capabilities to sophisticated chemical research to computer services for technical and business purposes. In addition to the marriage of complex science and sophisticated management, there is a fundamental requirement for the provision of conveniences and services at the final point of sale.

The complexity and the diversity of specialized functions make it difficult to cost specific units of product. Indeed, costing and pricing in the petroleum industry is further complicated by the fact that one original raw material results in the production of several basic products. Judgments that, in considerable measure, are qualitative, influence the costing of various activities and products. The problem of tracking raw material costs directly to revenues for any product makes it difficult to define precisely such considerations as

a "just and reasonable end price," "fairness and equity to consumers," and "requirements for working capital."

It is apparent that it is difficult for the petroleum industry to respond with precision to questions based on such concepts. Basically, the sum of the revenues received from the several products produced from a given barrel of crude oil must be sufficient to recover costs, including a realistic return on the capital funds employed. As a consequence the "justness" or "equity" of the price of one of these products is indicated by its ability to persist in the presence of the normal competitive forces at work in the marketplace.

The "fairness" of any given price or price increase is also indicated (a) by comparison to prices and indices of other products and services being influenced by similar economic factors, and (b) by examining the over-all return of the industry or relevant portions of the company and comparing it to that of other industries and companies.

If "fairness" is the criterion, examination of historical data confirms that the petroleum industry compares favourably with other industries that provide goods and services to the Canadian consumer. To earn the equivalent of a gallon of gasoline an average Canadian in 1975 worked only 47 per cent of the time that he had to work 20 years ago; the average Canadian's purchase of 700 gallons of gasoline a year required 99 hours of work in 1975, while in 1955 he would have worked 191 hours for the purchase of an equivalent volume of product.

The increasing efficiency of the

petroleum industry accrues directly to the benefit of the consumer, as well as to governments, employees and shareholders in the form, respectively, of taxes, wages and dividends.

In terms of the over-all return, the petroleum industry margins are not out of line. The gross margins of oil companies (oil companies' realization less crude oil costs) have increased in actual terms from 12.2 cents per gallon in 1955 to 15.5 cents per gallon in 1975. However, if the comparison is made in terms of constant 1975 dollars the latter figure remains at 15.5 cents per gallon while the 1955 gross margin becomes 24.8 cents per gallon; expressed in constant 1975 dollars the gross margin over this 20-year interval declined by 37.5 per cent.

The price movement of a gallon of regular gasoline over the last 20 years compares favourably with other consumer items that are frequently purchased, even if the improvement in gasoline quality is ignored.

Data compiled by Statistics Canada confirms that returns achieved by the petroleum industry are close to the average achieved by other industries in Canada.

Contrary to uninformed and frequently expressed opinions, the petroleum industry, particularly at the marketing end, is intensely competitive; firms compete on the basis of price and non-price factors in all petroleum product markets. Marketplace visibility varies, but the product offered on the large retail market—gasoline—is highly visible and competition is apparent. In addition, as a consequence of its

relevance to compensation of Canadian consumers dependent on imported crude oil, the industry has been closely monitored since 1973 by the Government of Canada. Conformity to federal price guidelines has been audited and conformity has been confirmed.

The History of Shell Canada Limited

The Shell Company of Canada Limited, known since 1963 as Shell Canada Limited, was incorporated in Canada in 1911. An appendix lists the historical highlights of the company.

Prior to Shell Canada Limited becoming public on November 1, 1962, financing was obtained from the parent company and the direct entry of the company into the public securities market in Canada dates from 1963.

In the year Shell Canada became a public company. Shell Oil Company, New York, distributed to its shareholders all shares which it held in Shell Oil Company of Canada Limited. As of December 31, 1962, a majority of the publicly-held shares of Shell Canada were held in the United States. In the intervening years, shareholders in the United States have released these shares on the market and the fact that, as of December 31, 1975, only eight per cent were held in the United States and 86 per cent in Canada is indicative of the attraction that the shares of Shell Canada Limited hold for Canadian

residents.

As of December 31, 1975, a total of 29 per cent of the voting shares of Shell Canada Limited were held by the public and the remaining 71 per cent were held by companies in the Royal Dutch/Shell Group, (see charts page 7).

The proportion of the voting shares held by the Royal Dutch/Shell Group is not indicative of the exercise of control in Shell Canada Limited. Seven of the nine directors of Shell Canada Limited are Canadian citizens. Five are "outside" directors. The president and five of the six vice-presidents are Canadian. The operations of the company are exclusively in the hands of the Board of Directors and the management of Shell Canada Limited.

Measured against other Canadian corporations, Shell Canada Limited is relatively large but is clearly in too competitive a struggle to permit it to inappropriately influence the policies and interests of suppliers, agents and dealers or the price of product in the marketplace. On the other hand, the availability of financial resources and management capability resulting from the size of the company enhances its ability to increase production through the application of capital, management, research and development.

In 1975, total revenues were \$1.9 billion, income taxes and royalty and mineral lease payments to governments were \$250 million and earnings totalled \$144.8 million. Measured in terms of revenues, returns accruing to government, or corporation earnings after tax, Shell Canada Limited is relatively large.

Shell Canada Limited has been ex-

panded largely through the careful and prudent reinvestment of earnings in the petroleum industry and in services and activities related directly to the petroleum industry. Mergers and takeovers, however, have contributed to growth. The acquisition in 1957 of all Canadian exploration and production properties of Shell Oil Company (U.S.) resulted in the Shell Oil Company of Canada becoming a fully-integrated petroleum company. In 1960, Shell acquired all the assets of North Star Oil Limited and in 1963 acquired the assets of Canadian Oil Companies, Limited.

Shell Canada Limited has greatly expanded its area of activities through joint ventures with Shell Explorer Limited and other companies operating in the petroleum and related fields. For example, since 1970 most of the company's operations in the frontier regions and the oil sands have been conducted under a \$250 million agreement with Shell Explorer, a wholly-owned subsidiary of Shell Oil Company, Houston.

In addition to acquisitions it initiated, Shell Canada Limited has bought a number of small, local, petroleum-related activities which the owner/operators have wished to sell. Reasons for selling have included inability to command needed capital and other causes.

In addition to the normal financial examinations that preceded an investment, Shell Canada Limited, in considering any acquisition, has been guided by two additional criteria—the compatibility in terms of product of the company into the ongoing activities of

Shell Canada Limited. Shell Canada Limited has not acquired companies that are not compatible with the demonstrated skills and historic areas of activity of the company; this is loosely defined as including energy and petroleum-related activities.

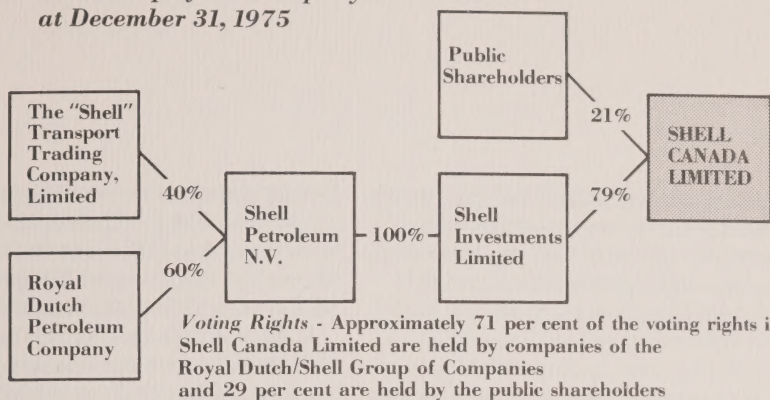
In major expansions and acquisitions that have occurred, it has been the practice of Shell, to the extent practicable, to maintain existing relationships that had been established by the acquired company with banks, financial institutions and investment firms. Shell Canada Limited has not concentrated its financial relationships with a few institutions.

Growth in Canada

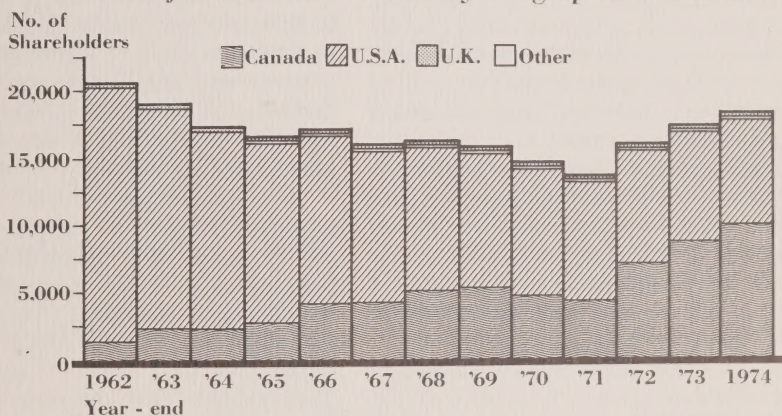
The efficiency and economy of operation of large petroleum corporations tends to reduce unit costs and to be of direct benefit to the consumer. The financial capacity of the large corporation makes possible the initiation and successful completion of very large undertakings that contribute to the welfare of the nation in terms of economic development, job creation, the provision of needed product and regional development. The risk-taking capacity of the large petroleum corporations is essential to development on the geographical and technological frontier.

In more immediate operational terms, large size and a national distribution

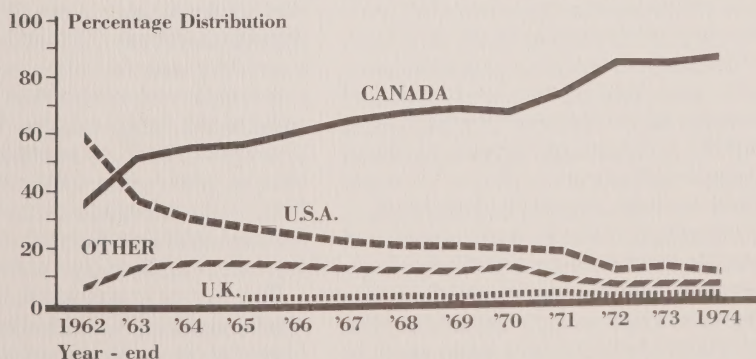
Ownership of the Company at December 31, 1975



Number of Public Shareholders by Geographical Location



Percentage of Public Shareholdings by Geographical Location



of operations results in it being efficient and economic to have central pools of Canadian experts in all aspects of a corporation. For example, Shell Canada is fully competent to design and install individual refinery units, supervise the design and installation of complete refineries and petrochemical plants, and perform other specialized tasks. The presence in the company of this expertise results in Shell being able to communicate with experts around the world; it can promptly obtain and use the latest advances in the petroleum field in solving problems in Canada or improving operations or products.

In terms of the marketplace in 1975, Shell's share of marketing oil sales was estimated to be 15.4 per cent, of refinery capacity 14.4 per cent, of crude and natural gas liquids production 4.6 per cent and of natural gas production 9.2 per cent, (see charts page 11).

Even though some petroleum companies are large, there are many sellers. The Canadian consumer of petroleum products gains economy from the efficiency inherent in a vigorously competitive marketplace and, concurrently, gains the benefits inherent in the scale, efficiency and financial and scientific and management capability of large corporations.

Over the next decade and beyond, the petroleum industry must invest immense sums to assure that supplies of energy are adequate to satisfy Canadian requirements. The anticipated projects are typically very large and capital intensive, and are expected to test the financial capacity of even the

largest petroleum companies. Companies such as Shell Canada will have to seek substantial sums from external sources in Canada, the United States and on world financial markets.

Even if the economic and political climate is favourable, the supply of such funds is less than the demand. Intense competition in the marketplace can be anticipated. Investors will select companies that have a long history of stability, earnings and growth, and will require that the financial instrument itself is well protected by adequate coverage of tangible assets of the company.

This market competition is intensified as a result of the fact that an increasing percentage of personal savings find their way into mutual and pension funds and life insurance, and so become institutionalized. These funds are then invested by large, investment-related institutions and, as a consequence of legal restrictions and internal investment security concerns (designed to protect against any serious danger of loss), they tend to channel investments into large, stable companies or government instruments.

A small company is either unable to acquire the funds needed for major undertakings in the energy field or, if able to gain funds, must pay a rate that, in the longer term, tends to increase costs to the disadvantage of the ultimate Canadian consumer.

The fact of corporate size and the resulting ability to invest in long-term high-risk ventures can provide an immense benefit to the Canadian citizen. It is recognized that exploration in

Canada's frontier areas is expensive and problem-ridden; it involves costly exploration where there is little geological, geophysical or geochemical data, where communications and supply are difficult and costly, and where problems are compounded by a harsh climate, permafrost, deep water, ice-covered offshore areas and seasonal transportation and working limitations.

Up to the end of 1975, operating in some combination of these adverse circumstances, Shell Canada Limited made the following explorations expenditures in the frontier areas on its own account and on behalf of joint ventures with Shell Explorer.

Mackenzie Delta	\$104,000,000
Other Northwest Territories plays	47,000,000
Eastern Canada Offshore	103,000,000
Quebec Onshore	22,000,000
Hudson Bay	11,000,000
Westcoast Offshore	33,000,000
	<u>\$320,000,000</u>

Over a period of 20 years Shell Canada and its affiliates have pioneered exploration in most of these areas. These immense investments to date have produced no cash flow. The only return—which may prove to be an important one—is the discovery of some hydrocarbons, which may or may not prove economic to remove, and data that will make an important contribution to the evaluation of the hydrocarbon potential of the areas concerned.

If these exploration investments and the subsequent evaluations result in the proving of hydrocarbon reserves in economically exploitable quantities, it

will contribute to energy supply for Canada and will be of direct economic benefit to Canadians.

It is universally recognized that enormous resources of petroleum are "locked" in oil sands in Canada. The long lead times, scientific requirements and immense costs involved in an oil sands project make it impractical or uneconomic for any but the largest integrated oil companies to be involved in the development of these resources and, even then, government involvement or specific public policy design may be required to make a project feasible. Over a 30-year period Shell has expended \$35 million on the oil sands—\$25 million since 1971 as part of the joint venture with Shell Explorer Limited—with no prospect of any immediate return.

In Alberta, future-oriented work to develop a practicable and economical technology for the in-situ extraction of oil from the oil sand deposits is being pursued.

At Shell's Research Centre in Oakville, Ontario, approximately 70 scientists are employed in developmental research design to effect improvements in manufacturing processes and to adapt oil and chemical products. The prime objective of this research activity is to develop new or improved petroleum products and refinery processes to meet the specific needs of the Canadian market. Process and product research is also carried out in a wide range of agricultural chemicals and industrial chemicals, plastics and resins.

In certain offshore areas, mapping

subsurface structures with conventional seismic reflection techniques is impossible due to the presence of hard, high velocity rocks on the seafloor; Shell Canada staff invented new seismic equipment and, through the agency of Shell's foreign affiliates, were able to find the sophisticated and specialized technology to design and build the prototype. The equipment was used by Shell and other companies in Hudson Bay in 1973 and 1974 and for the first time structures in that area could be mapped in detail. The equipment has also been used successfully on the Nova Scotia shelf, the Newfoundland-Labrador offshore area and several places abroad. The equipment has now been patented in Canada and other major countries, and licensing arrangements are being made with a major seismic contractor. Any explorer operating in any offshore area will be able to arrange to use this technology.

Shell Canada's scientists have been active in studies leading to techniques for increasing the productivity of proven oil wells and the design of such enhanced recovery schemes as water flooding. Initial field applications have an element of risk which Shell was capable of accepting. The product of these activities is that published results of Shell trials have helped in the establishment of secondary recovery techniques that are now available to the entire petroleum industry, including companies that would have lacked the capability in both financial and scientific terms to achieve these results.

Over the years Shell Canada has used its resources to resolve large and

small technological problems. Fallout of various kinds has accrued to the benefit of Canadian industry, regions of Canada and the nation as a whole.

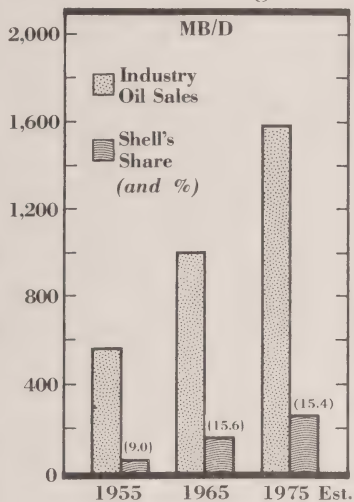
As a case in point, the Halifax Shipyard is now recognized at the international level in terms of its offshore drilling vessel construction capabilities, an accomplishment that had its origins in Shell Canada's East Coast drilling program and the related activities of Shell. Associated with this construction capability, the Halifax Shipyard has developed an expertise in offshore rig engineering design which has also gained acceptance in the international community. The Shipyard has completed construction of five offshore rigs to date, with a further three in the design and preliminary construction phase.

This relates directly to the fact that in 1968 Shell Canada initiated the construction of the first Halifax-built offshore rig, to be used in its initial 35-well, \$60 million drilling program off Canada's East Coast. It is also important to note that the first offshore rig built in Canada was built in Victoria in 1965 to be used in Shell's 14-well, \$16 million drilling program off Canada's West Coast.

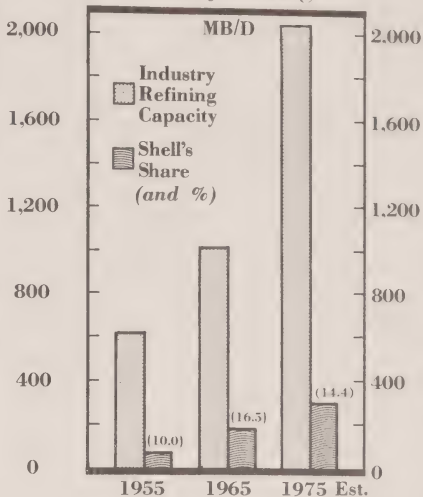
Shell Canada's participation in the design and construction of Canadian-made offshore vessels resulted in several innovations and modifications which were made available to the industry and have gained international acceptance. These include the remote recovery of subsurface blowout preventers (which eliminated the need for divers), more efficient methods of

Comparison with Industry

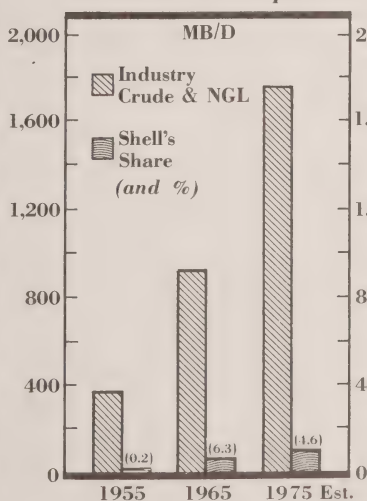
Marketing



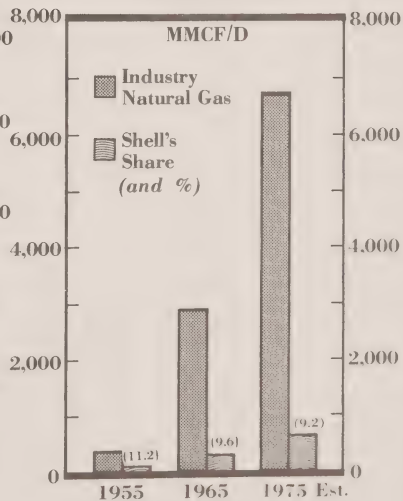
Manufacturing



Crude & Natural Gas Liquids



Natural Gas



towing, improvements in the design of supply vessels and the development of more efficient heave-compensating drilling tools. In addition, numerous innovations and equipment modifications have resulted from the participation of Shell Canada with equipment designers and manufacturers. These advances are of direct benefit to the Canadian offshore drilling industry.

Shell Canada was responsible for the development, in early 1960, of an off-highway tracked vehicle capable of transporting 30-ton loads over terrain not capable of supporting normal ground bearing pressure—a vehicle that is now made in Canada and is serving a worldwide market and, in particular, Russia and the United States.

In addition to the innovative expansion of technological frontiers within Canada, Shell Canada has broadened the domestic technical capability through introducing procedures developed by the Royal Dutch/Shell Group beyond the borders of Canada.

A specific example relates to natural gas processing. The Sulfinol process for removing hydrogen sulphide and carbon dioxide from raw natural gas and the attendant metallurgy were developed by the Royal Dutch/Shell Group of Companies and is available to Shell Canada and to the Canadian gas processing industry in general. It is the latest of several gas-treating processes developed over the past 25 years in studies undertaken by the Shell companies.

Shell Canada pioneered the application of space geodesy in Canada. The company used the first commercially-

built satellite doppler receiver in Canada and, as a result of the financial resources and expertise that were available, was able to develop a rigorous three-dimensional satellite computer program that produces positional accuracies in the order of two meters. Shell Canada instigated the design and construction of portable, unmanned satellite receivers for survey work anywhere on land or sea. Shell Canada survey staff integrated atomic clocks into an offshore survey system for the first time.

Shell has pioneered the introduction of commercial innovations in the petroleum industry in Canada. This includes the development of an automated warehouse, self-service in retail outlets, environmental advance through the use of compatible architecture in service stations, and chemical innovations related to agricultural and industrial products.

Conservation has been a continuing concern of the company. Prior to the wide expression of public concern as to the deterioration of the environment, Shell Canada Limited—like other progressive corporations—was reducing emissions to the atmosphere. This was done through the installation of floating roof tanks, smokeless flares, sulphur recovery units, hydro desulphurization units, bottom loading and other advanced processes and equipment developments. Effluents to receiving waters were de-oiled with separators, air flotation units, biological oxidation treaters, lagoons and other types of systems. Mud used in well drilling was buried in isolated locations so that

nearby streams or water courses would not be affected. Operating procedures had been tightened to prevent oil spills during transfers and contingency plans had been developed to contain and clean up spills, should they occur.

Shell, and the industry in general, has recommended relevant legislation that would relate the cost of protective activities to the resulting environmental benefit. Regulation in the form of resource management or best practicable technology has been strongly supported since, properly conceived, it will mean the rules relative to the environment are the same for all. Varying degrees of corporate concern as to environmental protection can place a socially-concerned company, such as Shell, at a comparative competitive disadvantage relative to companies that do not make an equivalent investment in the protection of the environment.

Social Considerations

Shell Canada Limited contributes in a direct way to social well-being in Canada through income and benefits to more than 6,000 employees, returns to about 10,000 shareholders in Canada and support of educational, cultural and other socially-desirable undertakings in the community at large. Management skills, acquired by people in the employ of Shell, are of benefit to the individual concerned, to

the company, to other companies, in community activities and in the public sector.

Shell Canada Limited, like many other corporations, extends financial support to educational institutions and social, cultural and welfare projects. In the case of Shell Canada Limited the total of donations from 1965 to the end of 1975 totalled about \$11 million. Corporate donations in Canada constitute a disproportionately large share of total donations as compared to those by individuals. They are essential to the success of many public appeals in support of worthwhile causes and projects.

Major corporations in Canada, such as Shell, with and without union stimulus, have been innovators and leaders in the introduction and improvement of such social programs as retirement benefits, spouse's benefits, thrift, savings and investment programs, sickness and disability indemnities, accident and death benefits and hospital and medical benefits.

Many of these benefits predate statutory benefits and generally provide benefit levels in excess of statutory requirements or those provided by the state. In the environment of rising expectations it could be argued that the larger corporations, because productivity is relatively high, can afford to enlarge the gap between the benefit levels of their employees and those working elsewhere, and that those who do so are pace-setters. This may be too simple a definition of their leadership role. The enlightened self-interest which inspires such corpora-

tions is not limited solely to some ethical or paternalistic urge to provide protection against illness, death and old age, but is founded on productivity and extends to the belief that a substantive base of material security is a prerequisite for other motivational opportunities and related productivity.

In other words, good social policy is good corporate economic policy. But, irrespective of the specifics of the motives, the result is that earnings are escalated and fringe benefits are bettered. A smaller corporation, if it is less efficient or slower growing, cannot match this performance because, at a point, the failure to increase production and productivity reduces the share available for distribution to employees.

The evolution of the business corporation in the last two or three decades has been marked by a quantum leap in the development of the science and practice of management. The expansion of management skill is probably a principal contributor to growth.

Within the individual corporation—such as Shell—individual management development, succession planning and training programs are designed to transfer skills and enhance the capability of succeeding generations of management. Such corporate programs often include co-operation with universities in the development of training courses which ensure appreciation of societal and environmental considerations within industry.

Management skills spill over into other businesses, ancillary to the central corporation. In the case of

Shell this is particularly apparent in the associated retail and distribution operations.

The larger the enterprise and the more skilled the management, the greater is the potential to react to the total internal and external environment, and not merely to the marketplace. One of the virtues of sophisticated management is an improved capacity—assuming the inclination exists—to reconcile short-term corporate interest and long-term social responsibility.

The opportunity for the improvement of skills—whether management or technological—and the associated increase in income, stimulation, opportunity and responsibility is a major contribution to the individual but is also a source of added strength to the corporation and the total society. This is true whether the acquired skills are subsequently exercised in the company in which they are acquired, another company to which the trained person transfers, in community activities or in public sector responsibilities. The training may ultimately be used in any area in the total community.

The Public Interest

Shell Canada Limited, because of its size and relative sophistication, is capable of ensuring that it is always fully in tune with the evolving national needs and aspirations. Not only is it able to avoid being in conflict with the

Canadian interest, but, by corporate design, is able to advance it.

Given the present and projected shortages of crude oil and natural gas, the greatest contribution that Shell Canada can make to Canada is through the discovery and development of important new petroleum fields or the development or expansion of output of known resources.

It is not one of the purposes of this presentation to detail aspects of public policy that tend to inhibit the ability of the corporation to serve through the expansion of energy production. Certain government programs and policies are demonstrably in opposition to the ability of petroleum corporations to expand their activities, an expansion that would enhance the prospect of assuring domestic supplies of petroleum products required to satisfy the anticipated domestic requirements. Such government policies implicitly fail to acknowledge that Shell Canada, like other petroleum corporations, is an essential part of the national productive plant and that the public interest is best served by policies that enhance the capability of such corporations to serve its customers, shareholders, employees and the citizens of the nation.

Public policies can directly reduce the ability of a corporation to acquire investment funds essential for the expanded production of crude or synthetic oil and natural or synthetic gas. This can directly reduce the adequacy of the supply of these fuels and, less directly, endanger Canada's balance of payments prospects and the continuing economic strength of the nation. Short-

term government policies, which may be inspired by very short-term political expediency, can undermine the ability and willingness of the petroleum companies to assume the risks inherent in the marshalling and deployment of the resources of money, management and technology essential to the balancing of the supply and requirements of domestically-produced fossil fuels.

The ability of the petroleum industry to serve the interest of the consuming public in terms of energy supply may be prejudiced less by a shortage or scarcity of potential energy resources than by public policy that is unaware of or indifferent to the real needs of the corporation, given that the objective is that it should produce at a level that will satisfy the urgent energy requirements of the society it is designed to serve.

Relevant and appropriate public policy is of obvious importance to the ability of the corporations to function efficiently and effectively. Shell Canada perceives its role to be to contribute to national development, operating within the rules as, from time to time, defined and redefined. It perceives the role of government to be the conception and promulgation of the rules. The rules must reflect economic reality and must be directed toward assuring orderly and equitable procedures rather than the inhibition of investment and activity.

Corporations can carry on their activities only with the assent of government. Governments' policies, whether by design or chance, are

capable of inhibiting and ultimately of destroying corporations.

Without profit a corporation will not survive. The ability to earn the needed return is related to public policy, to the appropriate and careful use of the sovereign power of the state. Corporations have no means of effectively reacting to the inappropriate use of the power of the state. They can and do protest, but the only "power" that, in this context, they possess is their capability and their capacity to accomplish purposes that are of national benefit—a capacity not paralleled elsewhere in the Canadian community.

If allowed by government to operate under equitable rules in its chosen environment, the large corporation has the capability of producing a maximum amount of product at a minimum cost and in a timely fashion. The potential weakness is its high degree of vulnerability to policies that undermine its effectiveness and a parallel inability to adapt to government initiatives that have an objective that is incompatible with legitimate corporate purposes.

This vulnerability is probably greater in a federal state, such as Canada, than in a unitary state, all other things being equal. A corporation that is operating across Canada must deal with the national government and 10 provincial governments. Policies are not necessarily consistent and jurisdictional problems can, and do, arise.

Public Opinion

Large corporations are vulnerable to the extent that size, of itself, can create an impression of power which, in turn, can introduce an element, of uncertainty into the public mind. This may result in punitive action or demagogic statements being a source of electoral profit for the political spokesmen.

In a nation with Canada's degree of literacy and a multiplicity of communications systems, it might be reasonable to anticipate that the public would be well and accurately informed as to the facts that describe the reality of corporate operations. This expectation has not been realized. The public attitude is more marked by uncertainty and suspicion than by an appreciation of the reality of corporate performance.

Shell Canada Limited has participated in a number of surveys designed to measure public understanding of the petroleum industry. Misinformation and serious information gaps have been shown to be pervasive. On the key subject of profit levels and the use to which profits are turned—matters upon which the petroleum industry is subjected to persistent criticism—the following illustrate the ill-founded assumptions as to the level and disposition of profits upon which these criticisms are based.

One survey question asked "How big are oil company profits?" Over half of those surveyed (51 per cent)—persons who in all probability are critics of the "excessive profits" of the petroleum industry—recorded their belief that profit, as a percentage of

revenue dollars, exceeded 20 per cent. In fact, Shell Canada's profit as a percentage of the revenue dollar of the company in 1975 was 7.7 per cent, the average of the last 10 years.

Public perception of how petroleum company profits are used is revealed in replies to a question: "Do you agree or disagree that most profits are taken out of Canada?" Close to three-fifths (58 per cent) supposed that "most" profits—obviously in excess of 50 per cent—were taken out of Canada. This perception, again, bears little relationship to the facts. The fact is that on the average of the past 10 years 27 per cent of Shell's profits was paid to non-residents of Canada and four per cent to the Canadian residents as dividends. A total of 69 per cent was reinvested in the corporation in Canada.

Correct and current figures are readily available to Canadians, but they are not known. Grave distortions and false impressions result from the fact that little distinction is made in most media statements between commentators who fictionalize or politicize, those who write or broadcast without adequate research and knowledge and those who respect their facts. In the absence of accurate information, assumptions are made that generate public criticism where no criticism is warranted.

Shell Canada Limited has concluded that a major national effort must be made to ensure that there is every reasonable opportunity for the public to gain an accurate and undistorted perspective of the role, objectives and business practices of the industry. The national interest, as well as the cor-

porate interest, demands that misunderstanding must be erased and inaccuracies corrected.

Shell Canada holds the view that the challenge of adequately and accurately informing the public about a subject as central to our national life as energy development demands the attention and commitment of the public, the media, the national and provincial governments and the business community.

The Conglomerate Business Form

Shell Canada Limited is an observer of conglomerate activity rather than a participant.

A conglomerate is a multi-market company that grows, to a great extent, through the acquisition of other companies. In order to diversify, large corporations move into different products quite unrelated to those previously produced. This is in contrast to moving horizontally into related products or vertically into the products of suppliers or customers.

According to this definition Shell is not a conglomerate—it has one major field of operation. Expansion has been vertical and horizontal. Most of its growth has been a product of re-investment in the petroleum industry rather than through the acquisition of unrelated enterprises.

Shell Canada Limited holds the view

that the entry of conglomerates into the petroleum industry, or certain sectors of the industry, would not necessarily be incompatible with the interests of the industry. This implies the assumption that the conglomerate had the necessary expertise, a requirement that might be satisfied by the takeover of an operating, sophisticated company. It would be possible, if not easy, for a conglomerate, now involved in other activities, to become a major presence in the Canadian petroleum industry.

Corporations engaged in the oil and gas industry must be capable of making very long term, very high risk, very large capital investments and must possess very sophisticated and relevant management skills. The generalized nature of a conglomerate, in management and operations terms, would tend to make it difficult for it to gain or commit the amounts of capital required for meaningful and successful oil and gas operations or to gain and retain the necessary management skill.

The presence of conglomerates as large integrated operators in the petroleum industry in Canada, if it were to take place, would be more readily accomplished by an existing major petroleum corporation electing to adopt the conglomerate route to expansion and diversification, rather than the entry into the industry of corporations or conglomerates that lack experience in the industry.

In the view of Shell Canada the significant expansion of the conglomerate form of structure in the petroleum field will be greatly influenced by

the thrust of public policy, provincial and federal. If the existing energy corporations are permitted to be effective and efficient in their field of specialization, this is likely to be their preference. Inhibition of development and the abbreviation of opportunity in this area, however, could force the integrated petroleum companies to seek opportunities for development and expansion in unrelated and diverse areas in the business community.

Appendix: Historical Highlights

- 1911** The Shell Company of Canada Limited incorporated under Ontario Letters Patent. Bunkering plant opened in Montreal
- 1913** Bulk plant established in Vancouver by the American Gasoline Company (later the Shell Company of California).
- 1915** Marine storage terminal constructed at Barnet, B.C., near present Shellburn refinery location.
- 1921** Company commences its own direct marketing operations in Eastern Canada, gradually establishing a network of distribution plants and dealer outlets. Similar expansion of operations takes place in British Columbia.
- 1925** The Shell Company of Canada Limited re-incorporated under Federal Charter on August 7.
- 1929** Shell Oil Company of British Columbia incorporated.
- 1930** Eastern Canada head office moved from Montreal to Toronto.
- 1931** Company name changed to Shell Oil Company of Canada, Limited.
- 1932** Shell begins refining in Canada at Shellburn refinery. Initial capacity 3,500 barrels per day.
- 1933** Montreal East refinery opens with capacity of 5,000 b/d (doubled within two years).
- 1933-39** Large scale expansion in Eastern Canada of marketing facilities, including service stations, tank trucks, railway tank cars, and marine terminals.
- 1939** Shell Oil Company (U.S.) opens an exploration and production office in Calgary and exploration program in Western Canada commenced.
- 1941** Crude oil pipeline (of which Shell is part owner) from Portland, Maine, to Montreal completed.
- 1944** Major gas field discovered at Jumping Pound, Alberta.
- 1945** Shell of British Columbia becomes a fully-owned subsidiary of Shell Oil Company of Canada, Limited.
- 1948-51** Expansion at Montreal East raises refinery's capacity to 40,000 b/d.
- 1951** Gas processing plant opened at Jumping Pound, Alberta. (Sulphur recovery plant at the same location comes into production the following year.)
- 1952** Trans Northern products pipe line from Montreal to Hamilton completed. Shell has one-third interest.
- 1953** Trans Mountain pipe line from Alberta oil-fields to Vancouver completed. Shell is part owner.
A significant oil discovery made at Midale, Saskatchewan.
Modernization of Shellburn refinery doubles capacity from 9,000 to 18,000 b/d. Subsequently this was raised to 19,500 b/d.
Shell becomes first Canadian oil company to manufacture chemicals from petroleum with opening of plant at Montreal East refinery.
- 1954** Assets of Shell Oil Company of Newfoundland Ltd. acquired.
- 1957** Shell Oil Company of Canada becomes a fully integrated petroleum company by acquiring all Canadian exploration and production properties of Shell Oil Company (U.S.).
Asphalt plant added to Montreal East refinery. Crude capacity now 62,000 b/d.
Waterton gas field discovered, one of the largest in Canada.
- 1958** Epoxy resin unit added to Montreal East chemical plant.

- 1958** Oil discovery made at Simonette in Alberta, and gas found at Panther River and Burnt Timber, Alberta.
- 1960** Shell acquires North Star Oil Limited. Assets include St. Boniface Refinery in Manitoba; Cree Oil of Canada Limited, exploration and production subsidiary of North Star with reserves of approximately 8 million barrels of liquid hydrocarbons and 150 billion cubic feet of gas; service stations throughout western provinces, providing important marketing link in Shell's retail network across Canada; and significant farm trade.
- 1961** Leases covering some 12 million acres acquired off British Columbia.
- 1962** Waterton gas and sulphur plant completed. Company's Class A Common Shares made available to Canadian public through Shell Oil Company (U.S.) distributing to its shareholders all shares which it held in Shell Oil Company of Canada. Shell Investments Limited acquires the common shares of Canadian Oil Companies, Limited. The following year the assets of Canadian Oil were integrated with those of Shell Canada. Assets include oil and gas wells; land holdings; Sarnia and Bowden refineries; 2,900 retail outlets; and two lake vessels. Shell's share of the Canadian market increased by approximately one-third to about 16% of the industry by the union of the two companies.
- 1963** Oakville refinery comes on stream (and flow of Trans Northern pipeline reversed to move products east to Kingston in keeping with National Oil Policy). Some 20 million acres acquired off the east coast in vicinity of Sable Island (subsequently, additional acreage acquired resulting in total of 47.5 million acres at the end of 1969). Company's name changed to Shell Canada Limited.
- 1967** Drilling vessel, Sedco 135-F, commences exploratory drilling program off the west coast. Combined data processing centre and Central Marketing Region headquarters completed at Don Mills, Ontario, accommodating one of Canada's largest computing and data processing operations.
- 1968** Expansion programs to increase capacity at Waterton gas and sulphur plant from 120 million to 170 million cubic feet per day, and at Jumping Pound gas and sulphur plant, from 60 million to 160 million cubic feet per day completed. Commercial Solids Pipe Line Company incorporated by Special Act of Parliament, for the purpose of building a sulphur slurry pipe line from Southern Alberta to the west coast. Shell Canada is a principal shareholder. Expansion program at Montreal East chemical plant completed to meet growing demand for solvents.
- 1969** West coast offshore drilling program completed with plugging of fourteenth well. No commercial reservoirs discovered. ShellPac Research and Development Ltd., jointly owned by Shell Canada and Canadian Pacific, is incorporated to undertake research and development in the field of solids pipelines. Company opens its first self-serve gasoline retail outlet in Canada in Vancouver. Drilling vessel, Sedneth I, begins exploratory drilling program off east coast of Canada.
- 1970** Sedco H, constructed in Halifax, joins Sedneth I in east coast offshore drilling program. Shell Canada and subsidiaries of Shell Oil Company in the U.S. enter into a \$250-million agreement enabling intensification of exploration in more remote regions of Canada and further research and field testing regarding synthetic crude from Athabasca Oil Sands and Peace River heavy oil accumulations. Non-leaded gasoline, Shell Ultra, introduced. \$3,500,000 research centre at Oakville, Ontario, opened. Major \$100 million expansion program launched in 1967 at Montreal East refinery completed, raising capacity to 100,000 b/d. Expansion programs at Sarnia and St. Boniface refineries completed.
- 1971** Drilling programs started in the St. Lawrence Lowlands and Mackenzie Delta. Exploration permits acquired on 21 million acres off Baffin Island. Marine seismic surveys begun. Two-year expansion program at Waterton gas plant completed; raises daily production capacity to 311 million cubic feet of sales gas, 36,600 barrels of natural gas liquids and 2,930 long tons of sulphur.

1972 15 holes drilled during 71/72 winter in the Peace River area of Shell's deep oil sands deposits. Further drilling and field testing planned. Production of oil from these areas would require an in-situ process (the recovery of crude oil without removing the over-burden).

Chargex cards accepted at participating Shell retail outlets across Canada displaying Chargex signs.

Shell Canada introduced own bias-belted polyester/fibreglass tire . . . the X-100 for the summer and the Polar for winter.

Shell becomes participant, with a number of other companies, in new research consortium, The Canadian Arctic Gas Study Limited, to develop proposals for the construction and operation of a pipeline from the Mackenzie Delta.

1973 Six wells drilled on 1.1 million acre holdings in Mackenzie River Delta. Two wells, Niglintgak and Titalik, were gas discoveries and one well, Kugpik, an oil discovery.

Application on behalf of Shell Canada and Shell Explorer made to Energy Resources Conservation Board of the Province of Alberta for approval of a 100,000 barrel-per-day mining operation in Athabasca oil sands.

With the outbreak of the Middle East War, and the subsequent cutback in crude production from that area, Shell Canada took a number of steps to counteract the possibility of a fuel shortage in Eastern Canada. Shell's eastern refineries were operated in excess of rated capacity and during the last quarter of the year shipments of crude from Western Canada, totalling more than a million barrels, were made to Montreal from Oakville via the St. Lawrence Seaway and from Vancouver via the Panama Canal.

Shell "SCOT" process under construction at Waterton gas plant at a cost to exceed \$20 million to reduce sulphur-dioxide emissions. Effective May 14, 1973, the Company's Class "A" and Class "B" common shares were sub-divided on a three-for-one basis.

1974 In Mackenzie Delta, oil and gas reserves were confirmed at the Niglintgak well and an oil and gas discovery was made at the Kumak well. Three gas discoveries were made in Alberta.

Shell Explorer sought buyer for its interest in Athabasca mining plant project because of uncertainties related to availability of crude oil for export to U.S.

Acquisition and evaluation of thermal coal deposits were continued. Preliminary evaluation of Fox Creek acreage block northwest of Edmonton indicated recoverable coal reserves of 500 million tons.

Shell initiated an exploration program for uranium and carried out exploration programs for copper and zinc deposits in Newfoundland, New Brunswick and Quebec.

Plans proceeded for a major investment in chemical manufacturing facilities in Sarnia to produce polypropylene, aromatics and isopropyl alcohol.

Company expanded number of self-service stations, car washes and convenience food stores-gasoline combinations.

1975 Natural gas discovered in Willson Creek-Limestone Mountain area of Alberta; five successful gas wells drilled in Rosevear area.

In Mackenzie Delta, Kumak K-16 step-out was drilled, encountering oil and gas.

Mineral exploration accelerated for copper, lead, zinc and uranium in several provinces and the territories; joint-venture uranium exploration agreement signed with Ontario Hydro.

Construction started on automated warehouse distribution centre in Montreal, the first such facility in North America's petroleum industry. A \$4.3 million advanced waste water treatment facility installed at Waterton gas plant; construction to begin on extensive secondary water treatment facilities at Montreal East refinery.

New catalytic reforming unit under construction at Montreal East.

Shell Canada prepares application to Department of Indian Affairs and Northern Development for approval to construct gathering system and processing plant for the Niglintgak field, subject to completion of a Canadian Arctic Gas pipeline to take Delta gas to market.

Shell Canada and four other companies in Beaufort-Delta Oil Project carry on research necessary to establish feasibility of an oil pipeline transportation system from Mackenzie Delta region to Edmonton.

